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<b>TRANSMITTAL SLIP</b>		DATE 7 Jan '82
TO: <span style="border: 1px solid black; display: inline-block; width: 150px; height: 20px; vertical-align: middle;"></span>		
ROOM NO.	BUILDING	
REMARKS:		
<p>Attached is the DCI's briefing paper for his meeting with the Cabinet Council on Commerce &amp; Trade Friday, 8 Jan.</p> <p style="text-align: right; transform: rotate(-30deg);"><i>filed - not used Dir. Dir. revised person</i></p>		
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## DCI Briefing: US-Canadian Economic Relations

- I. One-tenth the size of the United States in population and economic activity, Canada accounts for more US trade and business investment than any other foreign country.
  - A. Canada takes 15 percent of total US trade--\$39.8 billion in exports and \$40.4 billion in imports in 1980--which is one-and-a-half times the US trade with Japan and half the size of trade with all of Western Europe.
  - B. The US is even more important for Canada, accounting for 67 percent of total Canadian trade; US companies account for 80 percent of total foreign direct investment in Canada (\$35.3 billion in Canadian property and assets).
    1. US firms control 67 percent of Canada's petroleum industry, 32 percent of pulp and paper, 36 percent of mining and smelting, and 39 percent of manufacturing as a whole.
  - C. With a domestic market about the size of California's, Canada is sensitive about living in the US economic shadow.
- II. Bilateral relations are complicated by the vision that Prime Minister Pierre Trudeau and his Liberal Party have of Canada's needs for the 1980s and 1990s.
  - A. Politically, Trudeau aims for stronger government control over Canada's 10 contentious provinces, which wield considerably more power than US states.
    1. Britain will probably relinquish its vestigial control over Canada's charter in March or April, selling the constitution in Quebec could take years.
  - B. Trudeau's Liberals want the central government to guide the economy in concert with industry and labor but with the government dictating the pace and direction.
    1. Their model is closer to the Japanese system which uses a consultative, tripartite approach to develop a competitive trade advantage, than to either free enterprise or socialism.

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2. The Liberals see this as the only way for Canada to compete in the future.
  3. They blame the private sector and foreign--especially US--domination of key industries for the branch-plant, natural resource-dominated character of the Canadian economy.
- III. Liberal policy has been hampered by economic setbacks in recent years.
- A. In 1980 real GNP stagnated. In 1981 real growth reached 2.5 percent, but was again flat in the last half of the year.
  - B. Over 8 percent of the workforce is now unemployed, with little prospect of improvement in 1982.
  - C. By the end of 1981, inflation had reached 12.5 percent with no relief in sight.
  - D. Canada's current account deficit, \$1.9 billion in 1980, grew in 1981 as the trade surplus dropped from its record \$6.7 billion to around \$3.9 billion.
- IV. Politically, Trudeau frequently appears torn between the urge to play leader of the Third World and the desire to hold his own with the industrial giants. Economically, however, he clearly wants Canada to jettison its Third World image.
- A. To position Canada for the 1980s and 1990s, Trudeau believes he must increase Canadian ownership and control of key industries. Energy resources and high technology industries--particularly electronics and aircraft construction where Canada already has expertise--are priorities.
  - B. Trudeau recognizes that his plans place Canada more directly in competition with the US.
- V. To gain control over foreign investment, the Trudeau government established the Foreign Investment Review Agency (FIRA) in 1974.
- A. FIRA regulations establish preferences for firms with larger Canadian ownership and content, mandate export performance levels, limit domestic distribution by foreign firms, and encourage research and development expenditures in Canada.
    1. Although FIRA dealings with foreign firms are secret, they appear ad hoc and uneven.

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2. US firms complain that they never know what will be required to win FIRA approval.
3. The US has initiated proceedings under GATT charging that FIRA regulations discriminate against US firms.

B. Ottawa has threatened further action, such as allowing FIRA to aid Canadian companies pursuing takeovers.

VI. Nationalization of foreign--mostly US--assets has thus far, been limited to the energy sector.

A. The National Energy Program (NEP), announced in October 1980, aims to increase Canada's ownership of energy to 50 percent.

1. Direct Canadian ownership in the energy sector rose from 28 percent to 33 percent last year.

2. Firms with large Canadian ownership and control are given preference for exploration grants on federally owned land, and the state-owned oil company--Petro-Canada--receives an automatic 25-percent interest in all production on federally owned land.

- a. Foreign firms operating on federal land accuse Canada of changing rules in mid-game. US and Canadian officials are negotiating with the companies over compensation.

B. Trudeau would like to nationalize other sectors--especially mining and chemicals--but has been deterred by economic and financial restraints.

VII. Conflict over energy is not limited to the NEP.

A. Differences between Ottawa and the western energy-producing provinces were not completely settled by agreements reached in 1981.

B. Energy nationalizations have proceeded more rapidly than anticipated, draining capital, forcing increased foreign borrowing, and helping to push the Canadian dollar to a 50-year low last summer.

C. Ottawa is nervous about the money it has invested in the Alaska Pipeline.

1. Although Canadians interpreted remarks by President Reagan as a sign that the US will

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fulfill its part of the deal, they still fear the US will drop out because of lagging gas demand.

- D. Canada's gas producers, caught between a worldwide glut and high prices dictated by Ottawa, insist on long-term contracts that require consumers to pay for contracted gas whether they take it or not.

- 1. US firms have been using only 70 percent of the amounts originally contracted.

VIII. Several other problems continue to trouble US-Canadian relations.

- A. Canada periodically tries to renegotiate the 1965 bilateral Auto Pact.

- 1. The Pact, which calls for limited free trade in automotive products between the US and Canada, is designed to allow Canada's smaller industry to specialize in producing new models and parts.

- 2. The Canadian share of the North American market has not expanded as expected, partly because of the switch to smaller models.

- B. Through the new Committee on Industrial Megaprojects and Regional Benefits, Ottawa seeks to encourage the use of Canadian supplies and services for large projects.

- 1. Because the Committee failed to define competition adequately, the US has threatened a GATT investigation of preferential treatment of domestic goods.

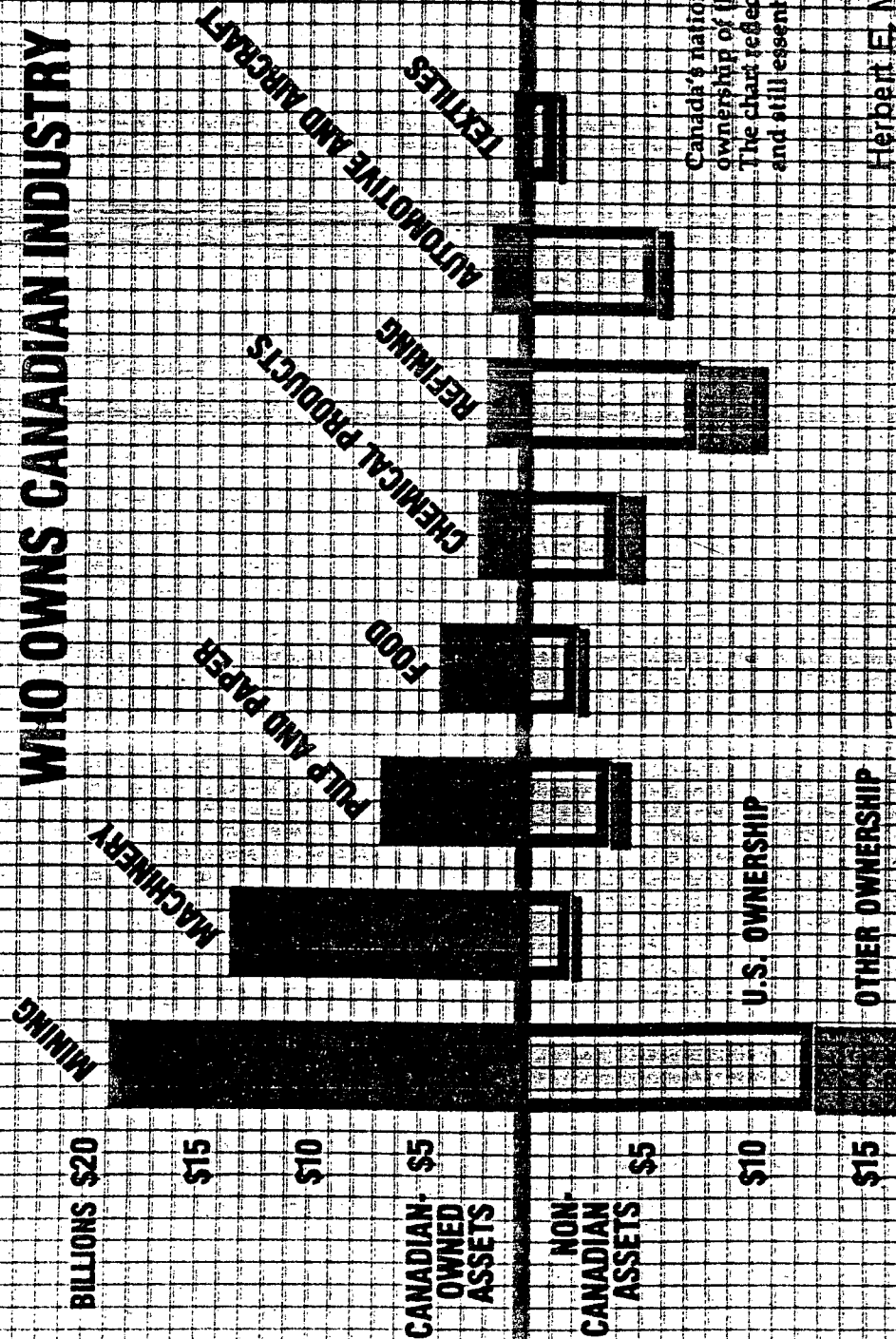
- C. Canada has bridled at US attempts to force American subsidiaries in Canada to comply with US laws.

- D. Ottawa wants the US to pay for "acid rain" damages to Canadian lakes and streams.

- E. There are periodic quarrels over use of the Grand Banks fisheries.

- F. Canadians are also upset that high US interest rates attract capital away from Canadian markets, depreciate the Canadian dollar, and worsen terms of trade.

# WHO OWNS CANADIAN INDUSTRY

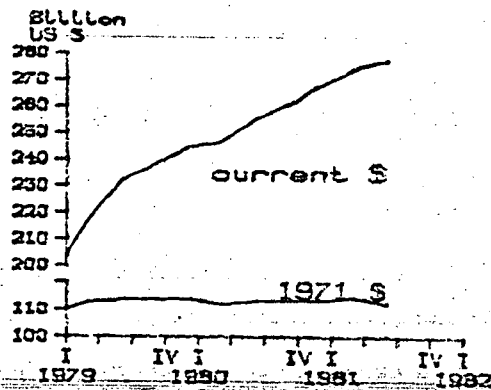


Canada's nationalists mean to reduce foreign ownership of the country's economic assets. The chart reflects 1978 data, the latest available and still essentially accurate.

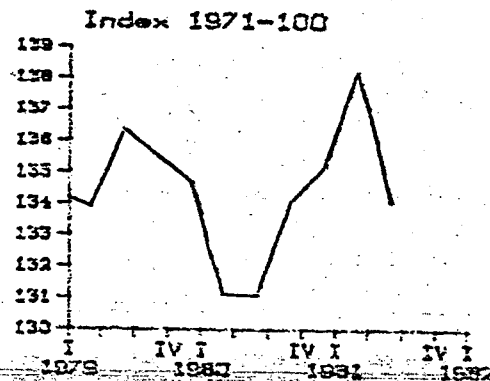
Herbert E. Meyer, Fortune Magazine

# Canada: Economic Indicators

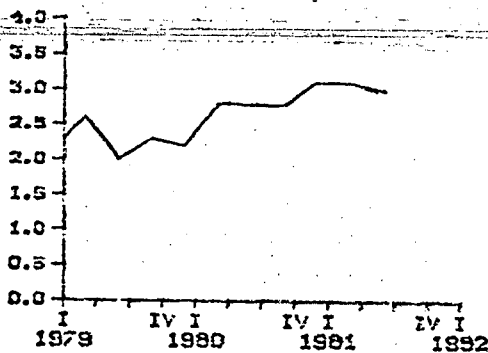
GNP  
seasonally adjusted  
at annual rate



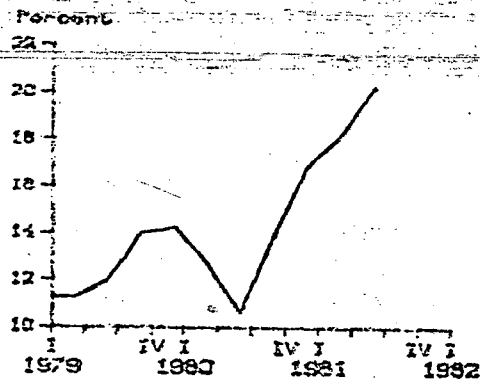
Industrial  
Production



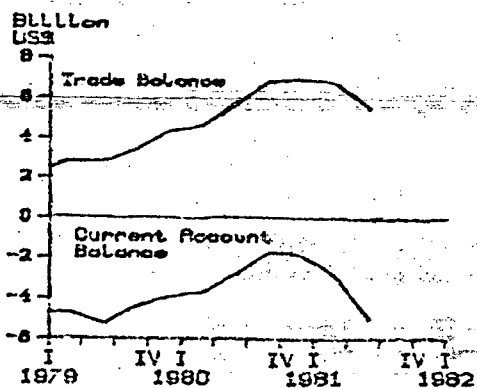
Consumer Prices  
percent change



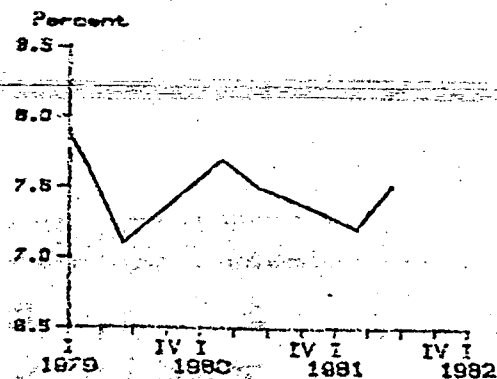
Canadian Bank Rate



Current Account/  
Balance of Trade<sup>a</sup>



Unemployment Rate



a. Seasonally adjusted, at an annual rate.